

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA8760

Project Name	Guizhou Rural Development Project (P133261)
Region	EAST ASIA AND PACIFIC
Country	China
Sector(s)	Crops (30%), Animal production (20%), Irrigation and drainage (20%), Agro-industry, marketing, and trade (20%), Agricultural extension and research (10%)
Theme(s)	Rural markets (40%), Rural services and infrastructure (40%), Rural policies and institutions (20%)
Lending Instrument	Investment Project Financing
Project ID	P133261
Borrower(s)	PEOPLE'S REPUBLIC OF CHINA
Implementing Agency	Leading Group of Poverty Reduction and Development of Guizhou Province
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	25-Jun-2014
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Decision	

I. Project Context

Country Context

Poverty reduction has been an important national development objective of the Chinese Government over the past 35 years and success in reducing rural poverty has been remarkable, an achievement that is acknowledged worldwide. In the 1980s, the de-collectivization and the introduction of the Household Responsibility System marked the beginning of the economic reform period and stimulated extraordinary agricultural and rural growth. In the 1990, further market reforms, the integration into the global economy, along with investment and abundant labor supply, provided the impetus for China's industrial growth and urbanization. These developments have allowed some 500 million farmers to escape poverty and some 260 million rural migrants to transition out of agriculture to more productive activities.

Rural poverty, however, remains a critical issue. Despite outmigration, poverty remains more pervasive and persistent in the western and inland provinces as compared to the coastal provinces. The rate of poverty reduction has also become less responsive to broad-based growth and rural-

urban disparity has increased. The Government also recognized that, given the stringent domestic poverty thresholds, the number of remaining rural poor has likely been underestimated in recent years and that adjustments to poverty measurement and poverty reduction policies were needed to better understand the characteristics of the remaining rural poverty and integrate the traditional poverty reduction efforts with China's rural-urban transformation and urbanization. In 2011, the Government revised the rural poverty line from RMB1,196 (2009) to RMB2,300 (US\$361) which increased the number of rural poor from 27 million in 2010 to 128 million in 2011.

The Leading Group of Poverty Alleviation and Development (LGOPAD) of the State Council of China has supported poverty reduction and rural development through strategies and policies targeted at poor rural areas. In the mid-1980s, the Government started the Development-oriented Poverty Reduction Program in Rural Areas. Subsequently, the Government formulated and implemented the Seven-year Priority Poverty Reduction Program (1994-2000) and the Outline for Poverty Reduction and Development of China's Rural Areas (2001-2010). Support to the development of commercial agriculture has been an important component in these multi-sectoral poverty reduction strategies. In particular, during the 2001-2010 period, agribusinesses have been supported both for the development of contract agriculture and for direct investment into agricultural production.

In 2011, LGOPAD released the Outline for Development-oriented Poverty Reduction for China's Rural Areas (2011-2020) to provide a new direction for addressing rural poverty. The new strategy aims to eliminate hunger and elementary needs by 2020, achieve a growth rate in rural per-capita income that is above the national average, and promote the convergence of human development indicators and public services coverage across rural and urban areas. It complements the existing geographical targeting of designated poverty counties and villages with the concept of adjacent destitute mountain areas of which 14 have been prioritized for regional development investments. The 2011-2020 Outline also reconfirms the multi-sectoral nature of China's poverty reduction strategy and government support to the development of commercial agriculture in poor areas. Under the Outline, the government explicitly invites agribusinesses to invest into the destitute mountain ranges that have been listed as a national priority, and to focus on economic activities that display a comparative advantage in those areas while being conducive to environmental rehabilitation. The Outline also encourages the development of diversified farmer organizations including farmer professional cooperatives. China's legal framework on these cooperatives was strengthened at the end of 2013. It was confirmed early 2014 that the modernization of agriculture through cooperatives also fully applied to poverty reduction programs.

According to LGOPAD, this renewed approach to rural poverty reduction involves agriculture sector restructuring, value chain development and marketing interventions, enterprise involvement and investments, institutional farmer cooperative development, and modern agriculture service delivery systems. In particular, the use of a value chain approach to capture opportunities arising from a growing domestic urban market demand is a new approach.

Sectoral and institutional Context

Guizhou is a land-locked province in southwest China with a total population of about 40 million of which about 40 percent belong to various ethnic minorities. It is the poorest province in China. A total of 11.5 million people are living below the national poverty line of RMB 2,300 (2011), many of them dependent on subsistence farming. About 80 percent of Guizhou's total land area belongs

to the karst areas of the Wuling and Wumeng Mountains in which sixty-five poor counties are located. Over 85 percent of Guizhou's rural poor, 88 percent of its poor towns, 84 percent of its poor villages, and 82 percent of its ethnic minority towns are situated in this unique karst landscape. These geographic conditions, combined with poor accessibility, pose challenges to sustainable and economically viable agricultural development. Rural poverty in Guizhou can therefore be described as deep and persistent and rural living standards remain below living standard in urbanized areas.

Over the past decade (2000-2010), the central government has allocated about RMB10.5 billion in support to Guizhou's poverty reduction efforts, in addition to provincial level funds. In 2011 alone, the central government approved RMB2.3 billion for Guizhou to advance poverty reduction efforts and these high investment levels are expected to continue for the years to come. Guizhou's integrated regional development and poverty alleviation approach includes: infrastructure development to improve connectivity; urban and industrial development and concentration of public services in cities and towns to attract and absorb the already migrating rural population with the perspective to provide alternative employment opportunities; the relocation (or 'ecological resettlement') of 1.5 million people over the coming 10 years from fragile karst areas; and rural development support in the form of service provision and incentive policies for key commodities and lead enterprise development in areas with agricultural development potential and comparative advantage.

The agricultural sector remains a key sector and provides a sound entry point for rural development, poverty reduction and for providing long-term employment and income opportunities for those segments for the population that will not be able to migrate. Given the structural characteristics of agriculture—the dominance of very small farms—and the current migration dynamics, a gradual restructuring of the sector over time is necessary to increase productivity and efficiency to allow for steady growth of rural incomes and the catching up with urban incomes. Ultimately, a much smaller portion of the population will be able to remain engaged in agriculture if income parity between rural and urban areas is to be realized in the future. The restructuring of the agricultural sector to become more integrated and advanced will therefore be closely linked and support the broader poverty reduction agenda. A particular challenge in this context is allow for the consolidation and agglomeration of production to increase productivity, accelerate technological change, and facilitate better capture of value-added at the individual farm level. Transparent markets for rural land use rights will need to be developed in parallel to facilitate the effective and, at the same, socially accepted consolidation of the many unsustainable small farms into larger and better coordinated modern production farms in form of cooperatives or enterprises.

The recent improvements in transportation infrastructure also provide new opportunities for agricultural development. A new regulatory and policy framework explicitly supports the establishment of new farmer cooperatives in rural areas to overcome structural challenges. New value chain opportunities are being created through changing consumer patterns that allows shifting away from basic commodity production to a value chain approach. These opportunities appear to remain un-tapped because of outdated agricultural production systems that are characterized by uncoordinated and scattered production because of the large numbers of small and unorganized household farms, limited access to capital for private investments, lack of marketing and price information, low technical and management standards, sub-standard product quality, and often a lack of a critical mass of production to attract investments in up-stream processing and marketing. Furthermore, local governments tend to take on roles and responsibilities that should be market-driven and are better placed in the hands of private farmer entrepreneurs and enterprises. It is within

this context that Government has requested the World Bank to provide assistance for a Guizhou Rural Development Project.

II. Proposed Development Objectives

The Project Development Objective is to demonstrate a model for agricultural sector restructuring and modernization, improved organizational arrangements, and strengthened public service delivery in Guizhou's poverty stricken areas.

III. Project Description

Component Name

Modernization of Agricultural Key Commodity Value Chains

Comments (optional)

This component will support: (a) the development or improvement of value chains for selected agricultural commodities and products with local comparative advantage (key commodities); (b) the establishment of new project farmer cooperatives or the improvement of existing cooperatives producer cooperation arrangements; and (c) the strengthening of forward and backward marketing linkages

Component Name

Public Infrastructure and Services

Comments (optional)

This component provides investment support for (i) the construction of production road infrastructure, such as off-grade access roads to village production areas or processing and marketing facilities, tractor roads, field tracks, and foot paths; (ii) construction of irrigation and drainage infrastructure, land preparation and terracing; (iii) establishment of communications and procurement of information infrastructure and equipment; (iv) construction of public market facilities, electricity supply and other infrastructure and goods necessary to facilitate and complement investments under Component 1

Component Name

Training and Capacity Building

Comments (optional)

This component provides financing for farmer technical training and cooperative management training, expenditures for extension technicians and technical services for preparing training materials, including for ethnic minority groups and women, cooperative advisor support, review and improvement of investment proposals for key commodity value chains, safeguards awareness and implementation training, and others.

Component Name

Project Management, Monitoring and Evaluation

Comments (optional)

This component supports the county, prefecture and provincial PMOs with office equipment, training, domestic and international training, and provide incremental operating funds for regular supervision, monitoring and evaluation, acceptance checks, and for safeguards implementation supervision and monitoring.

IV. Financing (in USD Million)

Total Project Cost:	140.11	Total Bank Financing:	100.00
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Financing Gap:	0.00	
For Loans/Credits/Others		Amount
Borrower		40.11
International Bank for Reconstruction and Development		100.00
Total		140.11

V. Implementation

The project implementation arrangements have been set up for the provincial municipality, and county levels.

Project Leading Groups. Project Leading Groups at the provincial, municipal and county levels, comprising representatives from the reform and development commissions, finance bureaus, poverty reduction offices, auditor's offices, civil affairs bureaus, ethnic affairs commissions, women's federation, and other departments will provide leadership, policy guidance, and direction for project implementation within their respective jurisdiction.

Project Management Offices. A provincial Project Management Office (PMO) has been established in the Guizhou Provincial Poverty Alleviation Office. The provincial PMO is responsible for overall project coordination and management, including annual work and budget planning; coordination of municipalities and counties in public outreach, work planning, procurement, fund withdrawal and reimbursement management and financial reporting; technical and institutional implementation aspects; general oversight, field supervision and acceptance checks; and training and capacity building. The PMO will also be responsible for overall project M&E and reporting to the World Bank and will maintain and update, as necessary, the Project Operations Manual and Financial Management Manual. Municipal-level PMOs will provide technical guidance to the counties, supervise implementation, and assist the provincial PMO in acceptance checks, and M&E.

County PMOs will have the primary responsibility for project management at the local level. They will prepare county work plans and review and approve cooperative investment and annual work plans, approve and oversee cooperatives' use of project funds, coordinate line departments in the implementation of cross-village (township) cooperative investments, and coordinate enterprise participation. They will be responsible for the procurement and management of public production infrastructure and services. They will report on the utilization of project funds, prepare semi-annual progress reports to the provincial PMO, and recruit and train cooperative professional advisors. They will also be responsible for identifying and addressing implementation issues and manage the local complaints handling mechanism. All PMOs are staffed with personnel that have experience or have been trained in project management, financial management, procurement, and M&E.

Administrative Village Committees. Village Committees will be responsible for local public information dissemination, community mobilization, planning and implementation of public infrastructure investments assigned to the administrative village level, and coordination of any land adjustments for infrastructure construction, as needed.

Professional Farmer Cooperatives. Farmer Cooperatives will be established as economic entities and registered under China's Farmer Professional Cooperative Law. They will have implementation responsibility for all activities under the CDF. They will organize cooperative members; prepare the

cooperative industry investment and annual implementation plans; and administer cooperative development funds in accordance with approved plans and project regulations. They will provide training and technical support to their members; facilitate linkages between the cooperative and enterprises; manage cooperative-level production facilities and related services; and provide technical training, technical exchanges and advisory services to their members. They will operate and manage industry-related infrastructure under their ownership and enter into partnership arrangements with relevant private sector enterprises for the benefit of the cooperative. Farmer Cooperative Advisors will be recruited and trained by the county PMOs to assist in the establishment and operationalization of new cooperatives; provide guidance to cooperatives in the formulation and implementation of productive investments and annual implementation plans; and assist the county PMOs in conducting acceptance checks, monitoring and reporting of cooperative activities, and complaints handling.

Technical Advisory Groups. Each county will set up a technical advisory group comprising representatives from government, cooperatives, and industry-related enterprises to provide advisory services for the cooperative value chain investments. The advisory groups will participate in and guide the value-chain development investment planning of cooperatives. They will provide inputs in to investment costing, technology innovation and dissemination, production organization and processing, and marketing research to strengthen the overall business orientation and operation of cooperatives. They will also assist the counties in soliciting interest from qualified agro-enterprise investors to cooperative with and invest in the project.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04	x	
Forests OP/BP 4.36		x
Pest Management OP 4.09	x	
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10	x	
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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